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MEMORANDUM FOR: [redacted] STAT
Legislation Division, OLL

VIA: Deputy Director for Administration

FROM: [redacted] STAT
Director of Finance

SUBJECT: S. 1879 - Reimbursement of Federal Employee's Relocation Expenses

REFERENCE: OLL 83-2377 Same Subject

1. The Office of Finance is pleased to see legislative initiatives which seek to correct the existing inequities associated with domestic relocations of federal employees. There are, however, serious problems inherent in the administration of S. 1879.

2. Under present law, reimbursed costs of domestic transfers constitute taxable income to employees involved in such transfers. The Warner-Trible bill would eliminate this tax cost by authorizing agencies to reimburse the employee for the tax paid on this excess taxable income. Such reimbursement is also taxable and the bill allows that tax to be reimbursed to the employee. This second payment is taxable but there is apparently no intent to extend reimbursement beyond the second tier of the tax. In order to compute the reimbursements for the tax paid, it will be necessary to obtain a copy of each Federal, State, and local tax return for every employee affected, recompute the tax by eliminating excess reimbursements, and make payment to the employee. The process will also require ready access to the tax regulations of all jurisdictions to which taxes were paid in order to consider the effect of carrybacks, carryforwards, tax credits, itemized deductions, etc. Because two tax reimbursements can occur and represent taxable income, the employee will be required to submit the following year's tax return for recomputation and another taxable payment.

3. In addition to the foregoing, there is a major compliance problem involving adjustments to a return that has been reconciled for purposes of tax reimbursements. Taxpayers are entitled to amend their returns for a number of years subsequent to original filing and the IRS can propose changes to tax liabilities for a variety of reasons. There is no practical way to assure that the reimbursement made is not later invalidated by a subsequent adjustment to the tax for a particular year.

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4. In sum, financial administration of this proposed bill would be extremely difficult and costly. An obvious alternative is to amend the tax code and exclude these reimbursements from gross income. There are probably political sensitivities attached to the granting of special tax treatment for government employees but it would appear to be an easier and more cost effective solution to the problem than S. 1879.

5. The Office of Finance fully endorses the intent of S. 1879 and its companion H.R. 3852 but recommends that Legislation Division explore the possibility of amending the tax code rather than making reimbursements which are taxable income.

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